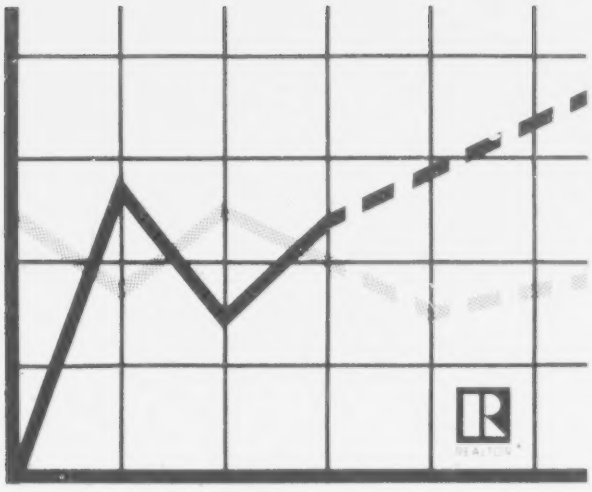
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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U.S. ECONOMIC OUTLOOK

The outlook for the housing industry deteriorated this month as the President and Congress responded to accelerating inflation and record mortgage interest rates with anemic and cosmetic "cuts" in federal spending, tighter credit policies and much higher taxes. The failure of the federal government to undertake a real fight against inflation and high interest rates through slower growth of federal spending and taxes, is increasingly placing a disproportionate burden on the housing industry, which is faced with the threat of the worst downturn in post-war history.

Consumer price inflation continued at an 18 percent annual rate in February and there are few prospects for relief in sight. The recent increases in mortgage interest rates have yet to be fully reflected in the consumer price index, while the President's newly imposed import fee for crude oil and gasoline will add at least 1 percentage point to inflation this year alone. Despite the forecast mild recession this year, wage increases are also likely to accelerate as workers attempt to recoup some of the erosion in real earnings experienced over the last 12 months. As a result, consumer prices are likely to increase by more than 15 percent during this year, compared to 13.2 percent during 1979. The outlook for 1981 is not much more optimistic, with consumer prices forecast to increase over 12 percent next year.

With little likelihood of any significant moderation in inflation in the near future, only a major change in federal deficit spending and tax policies can bring down interest rates and alleviate the current stress in the housing industry.

Unfortunately, the President and Congress have sent a clear message to the country that they are not serious about fighting inflation. The President now proposes increasing federal spending by 15.3 percent in 1980 -- hardly the "lean and austere" 7.7 percent budget increases he originally proposed. Even when the President decides to join the inflation fight modestly next October, he does so by boosting taxes up $28 billion from the President's January budget rather than significantly slowing spending growth. The widely advertised "cuts" in federal spending in 1981 announced in March are inadequate for a real fight against inflation. In fact, because of unadvertised upward revisions in estimates of federal expenditures in other areas, the President proposes almost identical spending in 1980 and 1981 as before the recently changed policies. Rather than slowing spending, he now proposes to "balance the budget" in 1981 by increasing taxes per household by $900 this year and $1,200 in 1981.

For a real fight on inflation, federal spending growth needs to be slowed by 2 percent ($6 billion) during the remainder of this year and another 2 percent (or $15 billion) in 1981. This would enable tax relief to encourage savings and investment to be initiated in 1981 and allow considerable easing of currently tight credit policies.

Without a slowing in spending, tight monetary policies will be ineffective in reducing inflation and, in fact, will add to long run inflation by reducing productivity-increasing investment and causing shortages in the housing supply.

The 1980 Recession

The increased credit restrictions and the leap in interest rates accompanying the President's March announcement will likely mean the onset of an average recession during the next 6 months. Inflation adjusted national output is expected to fall by 2 percent before a recovery begins late this year. Continued erosion of consumer purchasing power and high interest rates will likely keep new growth next year modest -- real national output is expected to increase only 1.4 percent in 1981.

Consumer expenditure, which has provided some strength to the economy in recent months, is expected to drop due to credit restrictions, further declines in real earnings and a small increase in the savings rate.

Investment in commercial and industrial structures is forecast to fall from the second quarter of this year until mid-1981, declining nearly 7 percent over the period due to tight credit conditions and the expected slowing of the economy. Investment in equipment will likely decline by a modest 3 percent during mid-1980 before showing renewed strength late this year as defense contractors increase equipment orders.

Housing Outlook

With mortgage interest rates currently about 15 percent, housing activity is declining rapidly. Housing starts fell to 1.3 million units in February, down 35 percent during the last 15 months. As mortgage money becomes increasingly scarce and high-priced, starts are expected to fall further to around 1.0 million during the spring before showing a modest improvement towards the end of the year. Overall, starts in 1980 are expected to average just under 1.2 million units, increasing to nearly 1.6 million next year.

Preliminary figures on existing home sales indicate that resale activity in March had fallen to around a 2.6 million unit annual rate, down 33 percent from September of last year. This is the worst decline in sales activity recorded over the 13 year history of these statistics and the outlook is for further erosion of sales activity in the months ahead. Sales will likely average an annual rate of only 3 million units during the middle of this year, improving to 3.7 million units in 1981.

The typical monthly payment for principal and interest on the median-priced home has now increased by $230, or 50 percent, over the last 12 months -- and 17 percent in just the last 2 months alone. Home prices during the next 12 months will probably increase by just over 10 percent -- less than the nearly 15 percent inflation rate, before accelerating to about the overall inflation rate in 1981.

OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

APRIL 1980

	QUARTERS								YEARS			
	Actual	Forecast							Actual		Forecast	
	79:4	80:1	80:2	80:3	80:4	81:1	81:2	81:3	1978	1979	1980	1981
AGGREGATE ECONOMY												
Gross National Product (billions of dollars)	2,457	2,524	2,576	2,621	2,703	2,787	2,880	2,992	2,128	2,369	2,606	2,944
Percent Change	10.5	11.4	8.6	7.1	13.1	12.9	14.1	16.5	12.0	11.3	10.0	13.0
Percent Change (without inflation)	2.0	1.1	-1.9	-4.7	0.6	1.8	3.4	5.7	4.4	2.3	-0.6	1.4
Consumption	4.1	0.3	-2.8	-2.1	1.6	-0.4	1.5	4.2	4.5	2.6	0.5	0.8
Residential Investment	-4.9	-29.2	-47.4	-34.8	-8.2	29.1	41.3	43.6	4.2	-5.7	-23.6	10.0
Nonresidential Investment	-0.5	5.8	-6.3	-5.2	0.7	0.8	5.0	4.6	8.4	6.2	0.7	1.2
Structures	11.9	6.1	-5.2	-6.8	-6.5	-5.3	-0.5	1.3	12.2	9.6	3.3	-3.4
Equipment	-5.9	5.6	-6.8	-4.4	4.4	4.0	7.7	6.3	6.7	4.7	-0.5	3.5
Exports	7.1	1.4	0.8	0.1	2.1	4.4	5.4	6.8	10.6	10.1	4.4	3.8
Imports	8.1	-2.3	-5.4	-3.4	-1.0	2.8	4.5	4.8	11.1	4.4	-0.4	1.6
Government Purchases	6.0	6.5	-2.8	-1.5	-0.4	1.7	0.8	1.9	1.8	0.4	1.8	0.1
Residential Investment (percent of GNP)	3.9	3.5	3.0	2.8	2.8	2.9	3.2	3.4	4.3	4.0	3.0	3.3
Nonresidential Structures Investment (percent of GNP)	3.5	3.5	3.5	3.5	3.4	3.4	3.3	3.3	3.1	3.4	3.5	3.3
Inventory Change (billions of dollars)	5.6	5.8	10.1	-1.4	-7.1	-0.8	3.1	7.5	22.3	18.1	1.8	6.6
Mfg. Capacity Utilization Rate (percent)	85	84	81	78	77	78	79	80	84	86	80	80
Manufacturing Industrial Production (percent change)	-1.0	0.0	-8.3	-11.1	-2.0	4.6	8.8	11.7	6.1	4.4	-3.3	2.5
Employment (millions)	97.7	97.9	97.7	97.7	97.7	98.0	98.4	98.9	94.4	96.9	97.8	98.7
Unemployment Rate (percent)	5.9	6.1	6.6	7.0	7.3	7.5	7.6	7.5	6.0	5.8	6.7	7.5
Real Disposable Income per Household (% change)	0.1	-1.2	-4.8	-1.8	-1.2	-0.4	1.7	3.0	3.8	1.5	-1.7	0.0
Disposable Income per Household (average)	26,287	26,905	27,559	28,300	29,071	29,896	30,833	31,865	22,766	25,306	27,959	31,378
Total Taxes per Household (average)	11,730	11,930	12,243	12,366	12,716	13,154	13,572	14,064	10,114	11,211	12,314	13,844
Percent Change	13.7	7.0	10.9	4.1	11.8	14.5	13.3	15.3	12.1	10.8	9.8	12.4
Consumer Price Inflation (CPI)	13.6	18.7	17.6	14.2	12.1	12.1	12.6	12.7	7.7	11.3	15.5	12.8
Producers Price Inflation (WPI)	16.6	22.3	19.6	16.2	15.6	14.7	14.1	14.1	7.8	12.5	18.1	15.1
Gross National Product Inflation (GNP Deflator)	8.1	10.1	13.0	12.4	12.5	10.9	10.3	10.3	7.3	8.9	10.5	11.3
Residential Construction Inflation	7.0	9.2	10.6	10.9	12.5	13.4	14.7	14.4	13.1	12.4	10.3	13.2
Nonresidential Construction Inflation	10.0	10.1	11.4	10.8	11.4	12.1	13.2	13.0	8.8	10.5	10.8	12.2
Compensation per Manhour (percent change)	9.1	11.2	11.2	11.5	12.6	10.8	11.3	11.3	8.5	9.0	10.4	11.4
Productivity (percent change)	0.3	-1.9	-4.3	-4.2	-0.2	0.0	0.8	2.3	0.5	-1.1	-2.2	-0.3
Unit Labor Cost (percent change)	8.5	13.5	16.2	16.4	12.8	10.8	10.5	8.7	8.0	10.2	12.9	11.7
Before Tax Corporate Profits (billions of dollars)	246	252	242	228	228	228	237	255	206	237	238	247
Corporate Tax Liability	97	100	96	90	90	88	91	98	85	93	94	95
After Tax Profits	149	152	147	138	138	141	146	157	122	145	144	152
Inventory Valuation Adjustment	-47	-49	-58	-53	-49	-50	-51	-55	-25	-42	-55	-53
Capital Consumption Adjustment	-20	-20	-22	-23	-25	-23	-25	-28	-13	-17	-22	-26
Profits from Current Production	82	73	67	62	63	68	70	75	83	86	66	72
Adjusted for Inflation (79:4 base)	82	72	63	57	57	59	60	62	93	89	62	61
Percent Change - Year Ago	-15.9	-23.2	-31.1	-35.4	-31.1	-17.0	-5.7	8.3	0.2	-4.6	-30.1	-2.6
Per Unit of Output (percent of GNP)	3.3	2.9	2.6	2.4	2.3	2.5	2.4	2.5	3.9	3.6	2.6	2.5
Effective Corporate Tax Rate (percent)	54	58	59	59	59	56	57	57	50	52	59	57
Federal Tax Receipts (NIA basis)	526	538	558	565	586	612	635	662	432	498	562	650
Federal Expenditures (NIA basis)	540	556	579	598	620	629	642	664	460	509	588	655
Surplus or Deficit (NIA basis) <1>	-15	-18	-22	-33	-35	-17	-7	-2	-28	-11	-27	-5
REAL ESTATE MARKETS												
Existing Single-Family Home Sales (thousands)	3,557	2,971	2,895	3,091	3,273	3,421	3,574	3,728	3,863	3,701	3,057	3,692
Percent Change - Year Ago	-11.0	-19.9	-22.4	-18.9	-8.0	15.2	23.5	20.6	8.8	-4.2	-17.4	20.8
Dollar Volume (billions)	231.2	197.3	202.9	224.2	239.0	256.8	284.2	311.0	214.4	237.6	215.8	296.4
New Single-Family Home Sales (thousands)	613	564	562	599	633	663	672	690	817	712	590	677
Percent Change - Year Ago	-26.9	-24.3	-21.3	-19.1	3.3	17.5	19.5	15.2	-0.4	-12.9	-16.1	14.8
Private Housing Starts (thousands)	1,593	1,345	1,091	1,005	1,185	1,342	1,486	1,658	2,020	1,744	1,156	1,563
Single-Family	1,058	834	718	702	858	939	1,058	1,161	1,433	1,193	778	1,098
Multi-Family	535	512	373	303	327	403	428	497	587	551	379	465
Subsidized	59	149	151	151	174	136	156	155	135	120	156	156
Mobile Home Shipments (thousands)	262	260	207	172	173	190	191	209	278	273	203	202
Housing Inventory (millions)	83.3	83.5	83.7	83.9	83.9	84.1	84.3	84.5	81.4	82.8	83.8	84.4
Rental Vacancy Rate (percent)	5.0	4.9	4.8	4.8	4.9	5.1	5.2	5.2	5.0	5.0	4.8	5.1
Unsold New Homes (percent of sales)	67.6	69.4	76.5	78.2	78.2	75.8	70.9	66.5	50.0	59.6	75.6	69.3
Office Vacancy Rate (percent)<2>	3.6	3.3	3.4	3.6	3.8	4.0	4.1	4.2	6.4	4.4	3.5	4.1
Industrial Vacancy Rate (percent)<2>	3.5	3.8	4.2	4.5	4.5	4.0	3.7	3.5	2.8	3.0	4.3	3.6
Existing Home Prices - Median (thousands of dollars)	56.1	58.1	61.0	63.3	63.6	65.7	68.0	70.3	48.7	55.5	61.5	69.2
Percent Change - Year Ago	11.0	10.5	9.4	9.9	13.2	13.1	11.3	11.0	13.9	14.1	10.8	12.4
New Home Prices - Median (thousands of dollars)	62.2	64.8	67.9	71.1	71.3	71.9	75.7	79.6	55.8	62.7	68.8	77.3
Percent Change - Year Ago	5.8	6.8	8.7	8.6	14.6	10.8	11.4	11.9	13.9	12.4	9.7	12.3
FINANCIAL MARKETS												
Total Time and Savings Deposits (% change)	11.1	8.3	5.7	4.1	3.6	5.1	5.8	6.9	11.7	9.4	7.2	5.3
Savings Rate (percent)	3.5	3.4	3.2	3.5	3.1	3.4	3.7	3.6	4.9	4.6	3.2	3.6
New Mortgage Commitments (billions of dollars)	104.7	103.0	83.5	69.0	73.4	94.6	109.4	122.2	136.0	123.0	77.2	112.7
Percent Change - Year Ago	-29.4	-14.0	-52.0	-48.0	-29.9	-8.2	72.3	77.2	1.6	-9.6	-37.2	46.0
Mortgage Debt Outstanding (billions of dollars)	1,304	1,335	1,360	1,380	1,403	1,432	1,463	1,497	1,113	1,264	1,369	1,481
Money Supply (M2) (% change)	9.2	0.9	4.5	3.9	5.7	6.0	6.1	6.0	8.6	8.0	5.7	5.6
New Home Mortgage Commitment Rate (percent)	12.27	13.60	15.00	14.50	14.20	13.90	13.70	13.50	9.69	11.23	14.32	13.60
AAA Corporate Bond Rate (percent)	10.54	12.33	13.16	12.73	12.34	11.65	11.48	11.50	8.72	9.63	12.64	11.56
Prime Rate (percent)	15.08	16.53	19.10	17.14	14.60	13.39	13.12	12.79	9.06	12.67	16.84	13.07
Federal Funds Rate (percent)	13.58	15.09	16.52	14.47	12.49	12.58	12.01	11.65	7.93	11.19	14.64	12.08

<1> Assumptions income a $10 billion rollback in scheduled Social Security taxes after 1981:1 and a $5 billion (annual rate) cut in corporate income taxes beginning 1981:1.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.